



**MINUTES  
PUBLIC MEETING  
November 18, 2005  
8:00 AM  
STATE HOUSE ROOM 233**

**I. Call to Order/Roll Call**

The meeting was called to order by Jeff Heinzmann. Ryan Kitchell, Jeff Heinzmann, Tim Berry, Judy Rhodes, and Tony Armstrong were present. (Ryan Kitchell left the meeting at 8:45 AM.)

**II. Previous Minutes**

Tim Berry moved to approve the submitted minutes for the August 26, 2005 Public Meeting, the September 23, 2005, Public Meeting, and the October 7, 2005 Public Meeting. Tony Armstrong seconded the motion and the minutes were approved unanimously.

**III. Secretary's Report**

Jeff Heinzmann reported on behalf of Auditor Nass that the Leave Conversion Pilot Program passed by the General Assembly as HEA 1394 and adopted by the Committee at the last quarterly meeting is proceeding. A form to decline or elect to convert accumulated time was distributed to all qualifying state employees within the judicial and legislative branches, the executive branch having decided not to participate. All elections are due by the close of Open Enrollment at noon on November 21, 2005. The contribution date is anticipated to be the January 25, 2006 payroll cycle.

Jeff Heinzmann also reported that a revamping of the current Hoosier S.T.A.R.T. website was in process. The Auditor's MIS department, Jeff Heinzmann and Lottie Hooyer of the Auditor's Office are working together to make the improvements.

**IV. Third Party Administrators Report**

Bill L'Huillier reported to the Committee that the Second Annual Luncheon had taken place on October 13, 2005. There were approximately 125 payroll and human resource personnel in attendance as well as all the Field Representatives for the Plan. The educational presentation was well received.

Bill L'Huillier distributed copies of the mailer sent out by Great-West as an educational piece on the new funds rolling out effective December 7, 2005. Jeff Heinzmann added that the changes will be posted on the Hoosier S.T.A.R.T. website along with links to

performance data and that the roll-out information would be included in the "Auditor's Corner" in this quarter's statement.

#### **V. Indiana Stable Value Fund**

John Finnegan of Delaware Investments reported to the Committee concerning the third quarter statement for the Indiana Stable Value Fund. He also noted that in early October Lincoln National Corporation, Delaware's parent company, merged with Jefferson-Pilot Corporation. Mr. Finnegan described this merger as more of an insurance acquisition not expected to have any measurable effect on Delaware's investment management.

Mr. Finnegan reported that over the third quarter rising interest rates led to a dwindling of the market-to-book value ratio for the Delaware portion of the portfolio, from 1.02 to 1.01, with the difference falling from \$5.8 million to \$2.4 million. Total Delaware portfolio gains for the three years history of the ISVF are \$28.5 million. The third quarter saw performance in the Delaware portion of the ISVF return negative performance of -0.59%, outperforming the Lehman Aggregate Bond Index (Index) by 0.08%. Year-to-date performance leads the Index by 0.50%, one-year performance by 1.08%, two-year performance by 1.44%, and three year performance by 1.73%.

Mr. Finnegan also outlined how the sector/quality diversification of the Delaware portion of the ISVF has taken a more defensive position due to rising interest rates. This includes: a tripling of U.S Treasury holdings to 15% over the past year, though at 15% of the portfolio still 11% less than the Index; trimmed exposure to investment grade credit over the same time frame from 33% to 27%, slightly higher than the Index's 24% exposure, and a 5% reduction in Mortgage Backed Securities and Commercial Mortgage Obligations to 35%, in line with the Index's 34% allocation. On quality diversification, the percentage of BBB rated (or below) holdings are essentially unchanged on paper, but Mr. Finnegan noted that these are at the shorter end of the yield curve and therefore slightly more defensive in nature.

The Fidelity Managed Income Portfolio II portion of the ISVF returned 1.00% over the third quarter and the three month return for the SEI Stable Asset Fund was 1.13%.

Judy Rhodes asked whether in the last quarter the auto industry was dragging down the fund performance as had been reported in the prior quarter. Mr. Finnegan stated that Delaware had reduced its automotive holdings and was underweight in the automotive sector, but that since the last quarter Delaware has gotten back into General Motors and Ford, and specifically GMAC. He stressed that these investments were more likely short term and opportunistic.

John Finnegan then introduced Catherine Neff of Dwight Asset Management Company. Catherine Neff gave a presentation to the Committee of the history of Dwight and its investment team. Catherine Neff gave the Committee a broad overview of the structure of the Indiana Stable Fund is, including Dwight's role as a sub-advisor to Delaware. An electronic copy of her presentation is being posted on the plan website.



## **VI. Investment Consultant's Report**

### **3<sup>rd</sup> Quarter Report**

Joe Bill Wiley of Capital Cities LLC presented the 3rd quarter performance report with a broad overview of the market last quarter to the Committee. Chris Welker discussed the fact that the AllianceBernstein Growth & Income fund again lagged its peer group. He noted that the fund is underweight in energy and utilities and overweight to cable stocks hurting its performance. Continued close monitoring of AllianceBernstein Growth & Income for regulatory issues and performance was recommended, but no watch list recommendation was made. Judy Rhodes asked why not given Capital Cities' concerns. Chris Welker stated that Capital Cities looks at the performance in terms of strategy, and that Alliance was consistent in choosing stocks that is in line with the strategy. Although the fund seems to be behind the current trend, there is nothing inherently wrong with the fund's strategy or management in Capital Cities' view. They will continue to monitor the fund, but are reluctant to recommend a fund for the watch list based upon short-term lagging performance.

### **Investment Policy Statement Report**

Chris Welker presented an overview of the draft Invest Policy Statement (IPS) to the Committee. Jeff Heinzmann had provided Chris with some written comments on the draft. After discussion, the Committee agreed they would like to see the new IPS in place as of the first of the New Year. Jeff Heinzmann recommended that the Committee review the draft IPS and forward any concerns to Capital by November 30, 2005. Capital Cities would then put together final draft and the Committee would hold a special meeting in December solely for the purpose of reviewing, discussing, and adopting a revised IPS. Jeff Heinzmann agreed to work with the Committee to establish a meeting date and time for December.

## **VII. Counsel's Report**

### **New Submission and Approval for Last Filing "Cycle"**

Mary Beth Braitman distributed "IRS Action Items" to the Committee and gave historical and legal explanation of actions needed. The Committee was asked to approve the final Volume Submitter Matching Plan document and Adoption Agreement as approved by the IRS. Tim Berry made a motion to approve the final Volume Submitter Matching Plan (VSMP) Document and Adoption Agreement as presented by Mary Beth Braitman. Judy Rhodes seconded the motion and the Committee passed the motion unanimously and signed the document.

### **New Submission and Approval for New IRS Filing "Cycle"**

Mary Beth Braitman presented to the Committee the new restatement and filing of Volume Submitter schedule. It will now be a five year cycle creating a smoother and more efficient process with the IRS. The restatement and filing of the Volume Submitter Matching Plan (VSMP) would cover federal law changes from 2001 to current. Previously approved changes and proposed changes to the VSMP which have been incorporated in the new restatement would include:

\*EGTRRA Changes approved by the Committee on September 16, 2004

\*Rollover Account distributions that allow Participants to take a distribution of Their Rollover Accounts at any time was approved by the Committee on September 16, 2004.

\*Involuntary Account Distributions proposed in the VSMP to be amended to Provide that, upon a separation from service, if the total balances of a Participant's accounts are \$1,000 or less, the Accounts will be distributed. This complies with involuntary distribution policy under the Deferred Compensation Plan and with new federal law requirements on rollovers of involuntary cash-outs.

\*Amendment Procedures are proposed to be amended to incorporate administrative procedures so that the Deferred Compensation Committee and Administrator can continue to amend the Plan on behalf of political subdivisions with respect to federal law changes.

Tim Berry made a motion to approve proposed changes made today and changes passed by Committee since 2001 to the VSMP for IRS filing. Tony Armstrong seconded the motion and the Committee passed the motion unanimously. The Committee signed the documents.

#### **State of Indian Deferred Compensation Matching Plan (for State Employees) and State of Indiana Deferred Compensation Plan**

Mary Beth Braitman noted that these plans are proposed to be amended to provide that upon, a separation from service if the total balance of a Participant's Accounts is \$1,000, or less, the Accounts will be distributed. Tony Armstrong made a motion to approve the changes as presented. Judy Rhodes seconded the motion and the Committee passed the motion unanimously. The Committee then signed the document.

#### **VIII. Old Business**

Jeff Heinzmann confirmed with the Committee the dates for 2006 quarterly meetings. They will be held on the third Fridays of February, May, August, and November (February 17, May 19, August 18, and November 17, 2006) at 8:00 AM. The location will be announced in advance of each meeting as available.

#### **IX. New Business/Adjournment**

There being no new business before the Committee the meeting adjourned at 9:40 AM.